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INTERNATIONAL ECONOMIC SCOREBOARD

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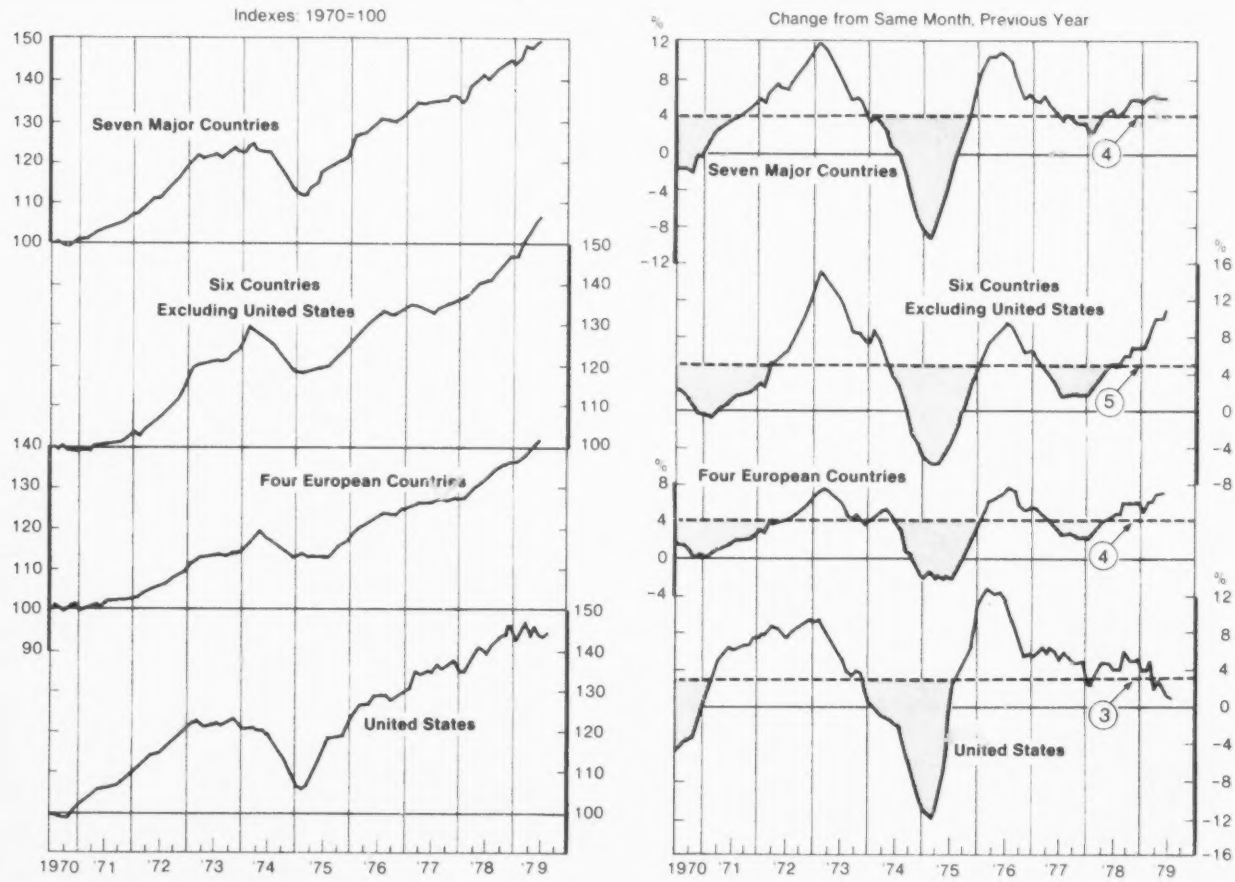
The U.S. leading index continued to move sideways through August, while the comparable leading index for the six other major industrial countries continued to march steadily and rapidly upward at least through June, the latest available figure. The pace of the advance in the six-country index during the year ending in June was more than five times as fast as that in the U.S. index: 11 percent compared with 2 percent. By August, the yearly rate in the U.S. index had declined to 1 percent.

None of the six countries, with the possible exception of Canada, is experiencing a slackening in its leading index like that in the United States. Indexes for the United Kingdom, West Germany, France, Italy and Japan all reached new highs at the latest reading. If a world-wide recession is brewing, the leading indexes have yet to learn about it. Usually they are among the first to know.

One of the likely beneficiaries of this situation is U.S. exports. This in turn may help sustain real GNP and employment, offsetting some of the weakness in domestic markets.

Leading Business Cycle Indexes



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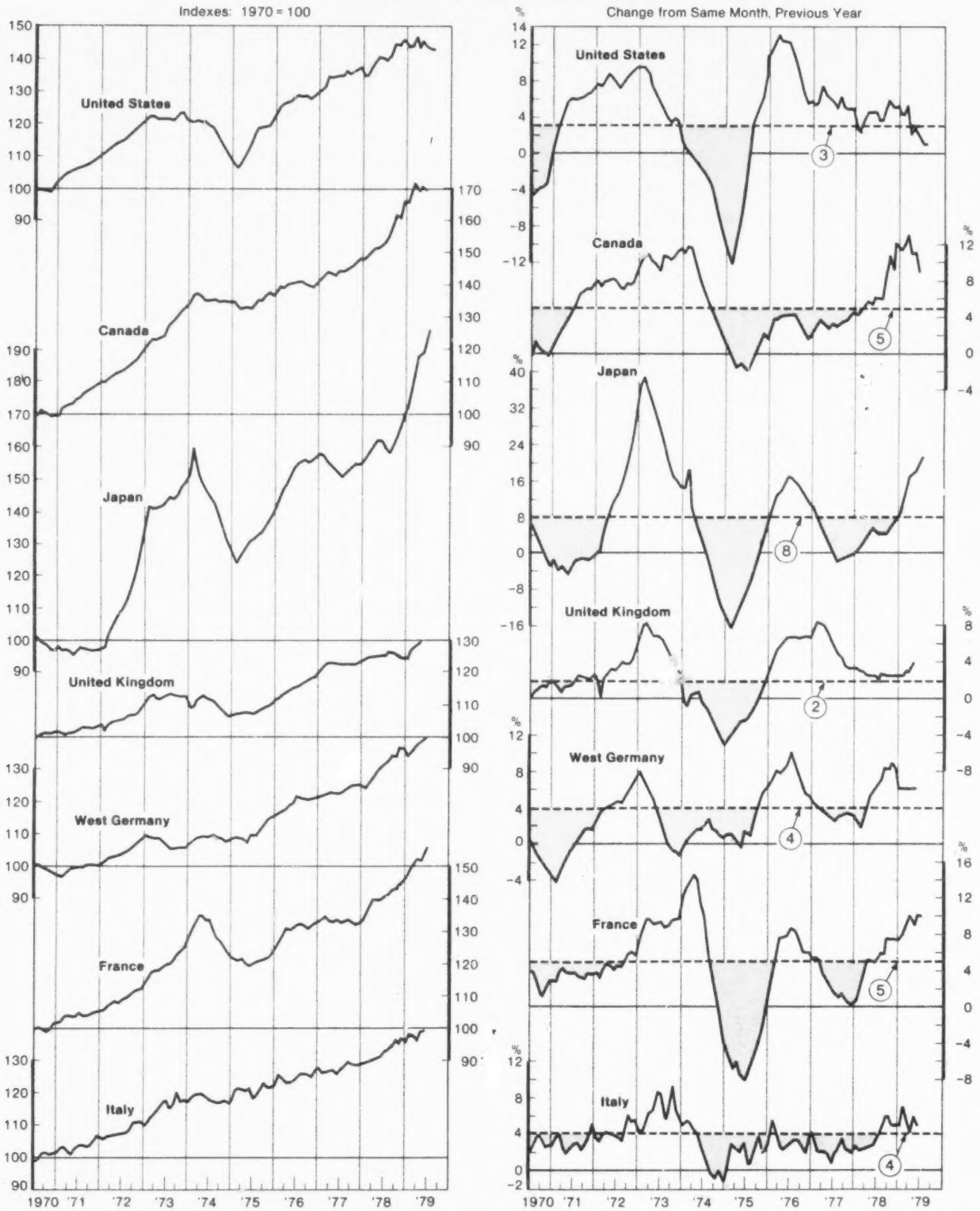
Leading Business Cycle Indexes



Note: For explanation, see back page.

Leading Indexes at New Highs, except in U.S. and Canada

The leading indexes for the United Kingdom, West Germany, France, Italy and Japan all reached new highs at the latest reading. The Canadian index has shown some hesitancy since March, and the U.S. index is following the more or less horizontal course that began last October. Taking the four European countries as a group, with each country's index weighted by its GNP, a vigorous advance was recorded during the year ending in June: 7 percent at annual rate. Adding Canada and Japan to the group makes the advance even more vigorous: 11 percent at annual rate. The pace now resembles that of late 1972.

Latent Strength in U.S. Exports

Past experience has demonstrated that strength in the leading indexes for a country's trading partners is likely to be followed by strength in the country's exports. The leading indicators for the importing country reflect both the initial decisions to invest or to buy as well as the confidence of business and consumers to make such decisions. Capital investment commitments, inventory investment and purchasing, marginal adjustments in the demand for labor, profitability, and credit flows all play this dual role. When they move favorably they often lead to an increase in imports of materials or of finished goods. To see whether a favorable environment for exports is developing, therefore, it is useful to look to the leading indicators in the customer countries.

A number of statistical tests of this idea have been carried out, pertaining to foreign trade flows to and from various countries and regions. A summary report on this research shows that about 70 percent of the variation in the yearly growth of U.S. exports could be accounted for by prior movements in the composite leading index for the six other major industrial countries. The current swing in that index therefore, is portending vigorous growth in the physical volume of U.S. exports during the current fiscal year.

U.S. Import Outlook: Sluggish

By the same token, the behavior of the U.S. leading index in recent months suggests sluggish growth in the overall physical volume of U.S. imports in the months ahead. Study of this relationship in the past indicates that the major cyclical swings in the growth of imports are anticipated by the leading index, with about 60 percent of the variation in import growth accounted for. Special factors that affect the demand for imports differently from overall demand, such as the recent market preference for imported small cars, account for the rest.

Leading Indexes, Seven Countries, 1978-79

	U.S.	Canada	Japan	U.K.	West Germany	France	Italy	7 Countries	6 Countries ex. U.S.	4 Countries, Europe
					Indexes, 1970 = 100					
Nov. 78	145	161	166	125	137	145	135	145	146	136
Dec. 78	145	166	170	125	137	146	136	146	147	136
Jan. 79	144	165	172	125	135	147	136	146	148	136
Feb. 79	145	168	177	126	136	148	139	147	150	137
Mar. 79	146	170	180	128	136	150	138	149	152	138
Apr. 79	145	170	186	129	138	152	136	148	154	139
May 79	145	171	189		139	152	139	149	155	140
June 79	144	170	191		140	154	139	150	156	142
July 79	144		196			156				
Aug. 79	145									
					Percent Change from Preceding Year					
Nov. 78	5	9	7	1	9	8	5	6	7	6
Dec. 78	5	11	8	1	9	8	5	6	7	6
Jan. 79	4	11	10	1	7	8	5	5	7	5
Feb. 79	4	12	12	2	7	8	7	6	8	6
Mar. 79	5	12	14	3	7	9	6	7	9	6
Apr. 79	2	11	17	3	7	10	4	6	10	7
May 79	3	11	18	4	7	9	6	6	10	7
June 79	2	9	19		7	10	5	6	11	7
July 79	1		21			10				
Aug. 79	1				Ten-Year Annual Growth Rate, Percent					
1966-76	3	5	8	2	4	5	4	4	5	4

Hence the leading index is a general guide to the growth in imports—only a rough guide, but certainly worth watching. Currently it is indicating a slowdown in the growth of U.S. imports.

The Trade Balance: A Favorable Sign

All this leads to the significant implication that there are strong factors pulling up the physical volume of U.S. exports and holding down the physical volume of U.S. imports. This should help the trade balance—although the actual balance depends also on prices for exports and imports. The growth in exports should have a favorable effect on the growth of real GNP and employment, working to offset other trends that may prove less favorable.

THE INTERNATIONAL ECONOMIC INDICATOR (IEI) SYSTEM

This bimonthly Conference Board report on the business outlook in seven major industrial countries is based on an analytical system of leading, coincident and lagging indicators, first developed in the 1930's by the National Bureau of Economic Research, which has become widely used in the United States to appraise the state of the business cycle. Since 1961 U.S. figures for these indicators have been published monthly by the U.S. Department of Commerce in *Business Conditions Digest*. Similar systems have been developed in Canada, Japan, the United Kingdom and a few other countries, but because of differences in content or methodology the results are not closely comparable. In an effort to establish greater comparability and broaden the coverage, a new set of indicators for seven major industrial countries was recently developed by Geoffrey H. Moore of the NBER and Philip A. Klein of Pennsylvania State University. They are being kept up to date, analyzed, and circulated to subscribers by the Center for International Business Cycle Research at Rutgers University in Newark, New Jersery.

The leading indexes shown here are composites based on a total of some 65 indicators that usually anticipate changes in national output or employment by several months. New orders, contracts for construction, corporate profits, stock prices, new business enterprises or business failures, and changes in consumer debt are among the indicators included for each country whenever available. (The U.S. leading index used here differs somewhat in composition from the index reported monthly by the U.S. Department of Commerce.) Experience has demonstrated that these indicators are helpful in tracking an economic recession or recovery, in revealing factors that are retarding expansion or leading to recession, in anticipating changes in foreign trade flows, and in providing early warning of new inflationary trends. To facilitate analysis the indexes shown in the charts are adjusted so that their long-run growth rates are equal to those in real GNP in the country concerned during 1966-76 (shown at the bottom of the table and by horizontal lines on the charts; the growth rate for each index is encircled on the chart).

For More Information

To find out more about this indicator system and its uses, and about the availability of the current data, please address inquiries to

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